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IN THE

Supreme Court Of The United States

October Term, 1982

No.

BIRMINGHAM TRUST NATIONAL BANK,

Petitioner,

v.

VISA, U.S.A., INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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STATEMENT OF QUESTION PRESENTED

Can trademark or service mark priority be bought and sold and the mark validly transferred, where (1) the transferor conveys no *tangible* or *intangible* asset associated with its service, (2) the transferor continues to use the mark as formerly, and (3) the transferee renders a different service to a different class of customers through use of a mark having a different configuration and appearance?

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PARENT COMPANY, SUBSIDIARIES AND AFFILIATES

Birmingham Trust National Bank (now SouthTrust Bank of Alabama, Birmingham) is a subsidiary of SouthTrust Corporation. Other subsidiaries and affiliates of SouthTrust Corporation are as follows:

Jackson Company
SouthTrust Bank of Dothan
SouthTrust Bank of Huntsville
SouthTrust Bank of Mobile
SouthTrust Bank of Marion County
SouthTrust Bank of Calhoun County
SouthTrust Bank of Baldwin County
SouthTrust Bank of Sand Mountain, Boaz
SouthTrust Bank of Montgomery
SouthTrust Bank of the Quad-Cities
SouthTrust Bank of Selma
SouthTrust Bank of Russell County
SouthTrust Bank of Auburn
SouthTrust Bank of Etowah County
SouthTrust Bank of Piedmont
SouthTrust Bank of Tuscaloosa County
SouthTrust Data Services, Inc.
SouthTrust Leasing, Inc.
SouthTrust Financial Services, Inc.
SouthTrust Insurance Agency, Inc.
SouthTrust Life Insurance Company
SouthTrust Mobile Services, Inc.

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The petitioner, Birmingham Trust National Bank ("BTNB") respectfully prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit entered in this action on December 29, 1982.

I.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit dated December 29, 1982 is reported at 696 F.2d 1371 and 216 U.S.P.Q. 649, and appears in the separate Appendix to this Petition at pages 1-12. The opinion of the Trademark Trial and Appeal Board dated September 15, 1981 is reported at 212 U.S.P.Q. 115 and appears in the separate Appendix to this Petition at pages 13-24.

II.

JURISDICTION

The opinion and judgment of the Court of Appeals for the Federal Circuit were entered December 29, 1982. (App. 25). On February 11, 1983, BTNB moved the Court of Appeals to vacate its mandate entered in this cause on January 19, 1983, and to grant an extension of time in which BTNB could file a petition for rehearing or reconsideration. On February 15, 1983, the Court of Appeals granted BTNB's motion to the extent that BTNB was allowed until March 1, 1983 to file a Petition for Rehearing or Reconsideration. On March 1, 1983, BTNB filed its Petition for Rehearing In Banc and Petition for Reconsideration with the Court of Appeals. On March 17, 1983, the Court of Appeals denied BTNB's suggestion for rehearing in banc and petition for reconsideration. (App. 26). Jurisdiction of this Court is invoked under 28 U.S.C. § 1254 (1).

III.

STATUTE

15 U.S.C. § 1060:

> A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, . .

IV.

STATEMENT OF THE CASE

This Petition raises fundamental questions as to the meaning and scope of trademark rights, the concept of goodwill and the assignability of trademark rights in the absence of the substantive conveyance of the goodwill of

the business with which the mark is associated. Through this Petition, Birmingham Trust National Bank ("BTNB") requests this Court to review the judgment of the United States Court of Appeals for the Federal Circuit, which reversed the well-reasoned decision of the Trademark Trial and Appeal Board (the "Board") in this action. Before both the Board and the Court of Appeals, the central question was whether VISA, U.S.A., Inc. ("VISA") can defeat BTNB's otherwise prior trademark rights by tacking on the period in which a visually different mark was used in connection with grocery sales by Alpha Beta Company ("Alpha Beta"), a grocery store chain which attempted to assign its mark (as shown at App. 16), to VISA's predecessor, National BankAmericard, Inc.

Alpha Beta began using its mark consisting of the letters "OK" and a design (as shown at App. 16) in its California and Nevada grocery stores in 1970. The mark was placed on identification cards issued to customers who had completed application forms requesting customer identification data (name, address, description, employment, birthdate, etc.) and listing types of checks to be cashed (personal, company payroll, social security, etc.). Upon issuance of the card, a customer's check would be accepted in payment of groceries purchased at the Alpha Beta store, and only that single store, which issued the card. Each card contained the statement "This check cashing card may be presented at any checkout stand of the issuing store shown" and a prominent display of the distinctive words "Alpha Beta" above the extension of the "K" (as shown at App. 16).

In 1976, BTNB developed and instituted a new banking service for its checking account customers in which the bank stood behind checks given by customers to participating business establishments. The service was designated "Check-OK" and symbolized by BTNB's "OK" mark (as

shown at App. 14). Check-OK customers are issued cards, bearing the OK mark, which identify the customers to merchants as having BTNB checking accounts on which BTNB will honor the checks. The customers' checks also bear BTNB's OK mark. The various merchants who contract separately with BTNB are obligated automatically to accept checks (up to $100), presented with the owner's Check-OK card. BTNB, in turn, guarantees the checks to the merchants. The card owner obtains a line of credit and overdraft checking privileges with his card. In addition, the Check-OK card will operate BTNB's automated teller terminals through which the customer can make a number of banking transactions. Merchants who have agreed to automatically accept BTNB checks presented with BTNB Check-OK cards are in all areas of retail trade, including department stores, drug stores, supermarkets, hardware stores, bookstores and specialty stores.

BTNB has promoted its Check-OK banking service through extensive advertising displays and promotional literature, all of which display BTNB's Check-OK and OK marks (as shown at App. 14). BTNB has licensed five of its affiliate banks (which, like BTNB, are subsidiaries of SouthTrust Corporation) to use its Check-OK and OK marks in connection with the Check-OK banking program.

On September 10, 1976, four months after BTNB first used its OK and Check-OK marks, Alpha Beta executed a purported assignment of its OK mark to VISA's predecessor, National BankAmericard, Inc. (hereinafter referred to as "VISA"). The document recites that Alpha Beta

> . . . is using the mark "O.K." as a service mark for check approval services . . .
> [and]
> . . . does hereby assign unto ASSIGNEE all rights, title and interest in and to said mark, all variations thereof,

and designs thereof, together with the goodwill of the business symbolized by the mark and any variations thereof, the registrations thereof, and all causes of action for past infringement.

The above recitation describes all the assets which Alpha Beta purported to transfer. On the same day of this assignment to VISA, VISA and Alpha Beta executed a license agreement which granted Alpha Beta a license to use the "service mark 'O.K.' " "in connection with check approval services for [Alpha Beta's] customers." VISA thereafter radically redesigned Aipha Beta's OK mark (as shown at App. 16) and developed a visually different OK mark (as shown at App. 19). VISA prepared cards bearing its different OK design, which were first issued to customers in November, 1976, six months after BTNB's first use of its Check-OK and OK marks.

The license-back between VISA and Alpha Beta contained important restrictions to insure that Alpha Beta's continued use of the OK mark it had assigned to VISA would not bear any similarity to the use contemplated by VISA of its newly designed mark. Unlike the usual trademark license which imposes upon the licensee certain standards of use to assure uniformity of use between licensor and licensee, the license-back prohibited Alpha Beta from (1) modifying the mark it had been using so that it would not look like the mark VISA planned to use in its banking service, (2) using the mark in a manner similar to VISA's planned use of the mark, and (3) displaying the mark in the manner VISA displayed its redesigned OK mark. As a result, Alpha Beta continued using its OK mark (mark "A") for the convenience of its grocery customers, and VISA (having purportedly purchased mark A and its priority of use) began using a redesigned OK mark (mark "B") in connection with a new banking service.

VISA's banking service is a check guarantee program, whereby some of VISA's member banks have entered into agreements with merchants who, upon receiving proper authorization at the point of sale, may accept the check of a customer having a VISA OK card for either payment for merchandise or for cash. The merchant is assured of payment in the event the customer's check is dishonored by the customer's bank.

On September 20, 1976, VISA filed an application to register the mark "O.K." for the service of providing check cashing guarantee privileges by means of a card. Relying upon use by its purported assignor, Alpha Beta, VISA asserted use of the "O.K." mark since June 1, 1970. On September 23, 1976, BTNB filed applications to register its "CHECK-OK" and "OK" marks respectively for banking services. BTNB asserted use since May 3, 1976 in each application. Subsequently, on December 27, 1977, VISA, pursuant to 15 U.S.C. § 1063, filed an opposition, Opposition No. 60,469, to BTNB's applications for registration. On January 9, 1978, BTNB, also pursuant to 15 U.S.C. § 1063, filed an opposition, Opposition No. 60,500, to VISA's application. These opposition proceedings were consolidated for trial before the Board, pursuant to 15 U.S.C. § 1067.

As noted above, the issue before the Board was whether VISA or BTNB possessed priority in use of the OK mark. VISA alleged use by itself and its predecessor Alpha Beta since a date prior to May 3, 1976, BTNB's date of first use of its OK marks. BTNB alleged that the assignment by Alpha Beta, upon which VISA relies in support of its claim of first use, was invalid and ineffective, and that VISA cannot claim priority based upon Alpha Beta's use.

A. The Decision of The Board

Upon careful consideration of the evidence presented, and after having heard oral arguments on the merits on two occasions, the Board rendered a lengthy and well-reasoned decision that Alpha Beta's attempted assignment of its OK mark was invalid and ineffective, and awarded priority in use to BTNB.

In reaching this conclusion, the Board recognized the fundamental tenet of trademark law that "there is no such thing as a common law property right in a trademark except as a right appurtenant to an established trade or business in connection with which the mark is employed," and thus, "no rights in a trademark can be transferred apart from the business or part of the business which it symbolizes." (App. 20). After noting that this common law rule forms the basis for the provisions of Section 10 of the Trademark Act of 1946, the Board held that "an agreement which purports to assign a mark and the goodwill of the business which it symbolizes, made with or without a transfer of tangible or intangible assets, is not valid *unless the assignee carries on the business of the assignor by using the mark in connection with goods and services which are the same as or substantially similar to those upon which the mark is used by the assignor.*" (App. 21) (Emphasis Added).

The Board looked to whether VISA's use of the OK mark met this test, and made the following findings:

> Visa had no interest whatsoever in using the mark in connection with grocery store check cashing and customer identification card services similar to those rendered by Alpha Beta under the mark. Rather, Visa wanted to use the mark in connection with a banking service in the nature of a check guarantee program, and what Visa needed, and undoubtedly acquired under the agreement, was freedom to use the "OK" de-

> sign mark to identify its check guarantee program without fear of suit by Alpha Beta . . . . it is obvious that the two services are substantially different in nature. The Visa service involves a check guarantee, so that a merchant can cash a card-holding customer's check without hesitation, whereas the Alpha Beta service does not; the Alpha Beta service is available to holders of the Alpha Beta "OK" cards only at Alpha Beta stores, whereas the Visa service is available to holders of Visa "OK" cards at a large variety of participating retail stores; the Alpha Beta program involves only Alpha Beta and its customers, whereas the Visa program involves Visa's member banks, participating merchants, and those customers of the merchant who hold Visa "OK" cards issued by Visa's member banks; and the Alpha Beta service is directed to card-holding Alpha Beta customers, whereas the Visa service is directed both to merchants and to those of their customers who hold Visa "OK" cards. Under the "license back", Alpha Beta remains free to use the "OK" design mark in connection with its service in the same form as before, and Alpha Beta continues to benefit from the goodwill of the business which was symbolized by the mark prior to the purported assignment.

(App. 22-23).

The Board concluded that Alpha Beta's assignment to VISA encompassed no real transfer of Alpha Beta's goodwill, ruling that "while the purported assignment to VISA may appear on its face to meet the requirements of Section 10 for a valid assignment, the surrounding circumstances indicate that it was in essence a transfer in gross and, hence, invalid under Section 10 of the Trademark Act." (App. 23).

Accordingly, the Board awarded priority of use to BTNB and therefore dismissed VISA's Opposition No. 60,469, and sustained BTNB's opposition in Opposition No. 60,500. VISA appealed the Board's decision to the Court of Appeals for the Federal Circuit.

B. The Court of Appeals Opinion

On appeal, the Court of Appeals reversed the decision of the Board. In reaching this conclusion, the Court of Appeals correctly recognized the essential principles of trademark law that trademarks are not separate property rights, trademarks are integral and inseparable elements of the goodwill of the business or services to which they pertain and a trademark may be transferred only in connection with the transfer of the goodwill of which it is a part. (App. 6-7). However, the Court of Appeals essentially held that a *recital* of transfer of goodwill was conclusively adequate, regardless of whether there was any substance to the recital.

Contrary to rulings in other circuits, the Court of Appeals did not require that the assignor of a service mark convey any identifiable asset of its business, *tangible* or *intangible*, other than the mark itself. The Court did not require that the assignee receive from the assignor any substantive indicium of goodwill, apart from the bare mark itself. *The Court did not even require that the assignee provide a service that serves the same function as the assignor's service or which serves the same customers served by the assignor.* The Court *in essence* held that trademark rights exist separate and apart from a business and can be transferred by the transferor's mere recital of transfer of the mark and its goodwill.

V.

REASONS FOR GRANTING THE WRIT

1. The decision below by the influential new Court of Appeals for the Federal Circuit conflicts with important decisions of the Supreme Court and other appellate courts.

Long prior to the Lanham Act, the United States Supreme Court recognized as a fundamental tenet of trade-

mark law that trademarks and service marks have no existence apart from the goodwill of the business associated with the mark and are inseparable from that goodwill. *United Drug Co. v. Rectanus Co.*, 248 U.S. 90, 97 (1918); *Metropolitan National Bank v. St. Louis Dispatch Co.*, 149 U.S. 436, 446 (1893); *Menendez v. Holt*, 128 U.S. 514, 522 (1888). As this Court stated in *United Drug, supra*:

> The asserted doctrine is based upon the fundamental error of supposing that a trademark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has little or no analogy. *Delaware & H. Canal Co. v. Clark*, 13 Wall. 311, 322, 20 L.ed. 581, 583; *McLean v. Fleming*, 96 U.S. 245, 254, 24 L.ed. 828, 832. There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed. The law of trademarks is but a part of the broader law of unfair competition; the right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business. *Hanover Star Mill. Co. v. Metcalf*, 240 U.S. 403, 412-414, 60 L.ed. 713, 717-719, 36 Sup. Ct. Rep. 357.

In *Metropolitan National Bank*, this Court defined goodwill, to which a trademark is always attached, as something "connected with a going concern or business [and that] is not susceptible of being disposed of independently." 149 U.S. at 446.

When Congress later enacted the Lanham Act, providing for national registration of trademarks and nationwide protection of marks used in commerce, it codified this basic

principle in Section 10, 15 U.S.C. § 1060, which provides:

> A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, . . .

Federal courts, interpreting Section 10, have held that, for purposes of a valid trademark assignment, goodwill cannot be transferred independently of a going concern or business. *D E P Corp. v. Interstate Cigar Co.*, 622 F.2d 621 (2nd Cir. 1980); *Oklahoma Beverage Co. v. Dr. Pepper Love Bottling Co.*, 565 F.2d 629 (10th Cir. 1977); *Glamorene Products Corp. v. Procter & Gamble Co.*, 538 F.2d 894 (C.C.P.A. 1976); *Sterling Brewers, Inc. v. Schenley Industries, Inc.*, 441 F.2d 675 (CCPA 1971); *Mister Donut of America, Inc. v. Mr. Donut, Inc.*, 418 F.2d 838 (9th Cir. 1969); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285 (8th Cir. 1969); *Dresser Industries, Inc. v. Heraeus Engelhard Vacuum, Inc.*, 395 F.2d 457 (3rd Cir. 1968); *J. C. Hall Company v. Hallmark Cards, Inc.*, 340 F.2d 960 (CCPA 1965); *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947 (CCPA 1962); *Armstrong Cork Co. v. Armstrong Plastic Covers Co.*, 434 F. Supp. 860 (E.D. Mo. 1977); *Otis Elevator Co. v. Echlen Mfg. Co.*, 187 U.S.P.Q. 310 (T.T.A.B. 1975); *Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293 (SDNY 1959), *aff'd*, 279 F.2d 607 (2nd Cir. 1960).

While the Court of Appeals for the Federal Circuit, in the decision below, *stated* that it was following these precedents, its decision was in fact contrary to them. One of the decisions which cannot be reconciled with the decision below is that of the Eighth Circuit Court of Appeals in *Grapette, supra.*

In *Grapette*, the Eighth Circuit held that a trademark assignment by Fox Corp. to Grapette was a legal nullity

where Fox had used the mark with a cola-flavored soft drink, whereas Grapette used the mark with a pepper-flavored soft drink. Fox continued to sell its cola under the mark "Fox Brand". The Eighth Circuit Court of Appeals held that a change in the product associated with the assigned mark caused a separation of the trademark from its related goodwill and vitiated the assignment.

The Circuit Court for the Federal Circuit, in its decision below, made no attempt to distinguish or reconcile its decision with *Grapette*. While both the Eighth Circuit in *Grapette* and the Federal Circuit below *state* that they are following the same principles of trademark law, they in fact conflict in that the decision below permits a mere *recital* to control over the *substance* of the transaction. The Eighth Circuit in *Grapette* insisted that a transfer of goodwill must have some substance, and cannot occur unless some underlying portion of the transferor's business is transferred and the transferee continues to use the mark in connection with the same product or service with which the transferor had used the mark. Only then can goodwill and a trademark, associated with the transferor's product or service, be validly transferred.

The Court below, on the other hand, held that any service mark can be validly transferred even though the assignee acquires no identifiable asset, intangible or tangible, associated with the service denoted by the service mark. The Court further held, contrary to the Eighth Circuit's decision in *Grapette*, that a mark can be properly transferred even though the assignee *does not provide the same service provided by the assignor and does not serve the same customers served by the assignor.*

Accordingly, the Eighth Circuit and the Federal Circuit, while agreeing that a mark cannot be transferred without a

simultaneous transfer of goodwill, disagree fundamentally as to whether substance or form should control. The Lanham Act's failure to define goodwill or to set forth a test for a valid transfer of goodwill has left the federal courts free to develop their own definitions and tests and thus has led to this conflict. The lower federal courts are in need of guidance from this Court if the Lanham Act is to be interpreted and applied consistently throughout the country.

Now is an especially appropriate time for this Court to provide guidance in construing the Lanham Act. The Court of Appeals for the Federal Circuit, as successor to the Court of Customs and Patent Appeals, is expected to be especially influential in trademark matters because it is supposed to have special expertise in this area of law (although in fact many of its members, including the author of the opinion below, are not former members of the CCPA). An erroneous decision by the Federal Circuit on a fundamental question of trademark law, such as the test for assignment of trademarks, is likely to be considered authoritative by other federal circuit courts, with the result that century-old principles of trademark law, on which many important licensing and franchising transactions have been based, would be in question, causing serious economic dislocations.

Since enactment of the Lanham Act in 1946, the United States Supreme Court has not rendered even one decision addressing the fundamental tenets of trademark law subsequent to the Act's passage. There is great need for this Court to settle authoritatively basic premises of trademark law, and no more timely occasion is likely to occur than during this first year of operation of the new Court of Appeals for the Federal Circuit, which appears to have embarked upon a dramatic departure from settled principles of the most fundamental nature. Absent guidance from

this Court, the Court of Appeals for the Federal Circuit is entirely free to disregard such pre-Lanham Act precedent, to disagree with the Eighth Circuit and other lower federal courts, and thus to create havoc for trademark owners, who depend upon the Lanham Act for uniformity of protection in all states where their marks are in use.

2. The decision below overrules the single most important tenet of trademark law otherwise consistently applied for nearly a century: trademarks are inseparable from the goodwill which they denote, and are not transferable apart from such goodwill.

Trademark law, both at common law and under the Lanham Act, recognizes valuable property rights based upon priority of use. By awarding exclusive rights to the first user, the law protects the trademark owner and the public against confusion and deception caused by subsequent users.

If trademark rights could be freely bought and sold, without continuity of usage or identity between the products or services of the seller and buyer, then a subsequent user could simply purchase exclusive rights to a mark from any first user, despite the different functions the mark may have served for the first user. By so doing, the latter user could leap-frog the priority established by an intervening user who has used the mark for products or services which are in fact similar to the later user's products or services, and thereby deprive the intervening user of the exclusive and prior rights, and the associated goodwill, it had earned by being the first party to use the mark in connection with such products or services. By thus purchasing its priority, without continuing the use established by the seller, the later user also creates confusion, because the seller's customers will wrongly assume that they can obtain the same

services or goods from the trademark purchaser as they had obtained from the trademark seller.

The decision of the Court below, in sanctioning an assignment of trademark rights by the mere recital that the assignment is accompanied by goodwill, and without any need to convey anything of substance that assures a continuity of products or services, has completely upset the two basic premises of trademark law – rights based upon priority and protection against confusion.

The decision below is especially dangerous precedent because it preserves the form of these fundamental rules of law – by acknowledging their existence and purporting to follow them – while stripping these rules of any substance. It does this by recognizing that a trademark assignment must be accompanied by a transfer of goodwill, and then stripping all meaning and substance from the word "goodwill".

As a consequence of the Court's decision, the possibility of auctioning trademark priorities to the highest bidder has become a reality, as envisioned by the hypothetical negotiations set forth below:

> B: "We see you've been using this ID mark for several years."
>
> A: "Well, if you are interested in buying it, we won't sell. We kind of like it."
>
> B: "Oh, no. We're not really interested in your mark. In fact we've already developed one of our own. However, we might have trouble registering our mark with yours out there, unless we make a deal with you. Also, we could use your priority."
>
> A: "What kind of deal? Remember I said we didn't want to sell."
>
> B: "Don't worry about that. Nothing will change. You get to keep your mark. We get to use ours. And we'll pay you $10,000."

A: "$10,000? If nothing changes, why would you want to pay me $10,000?"

B: "Well, if we can buy your priority, it might help us with our registration. We could claim we got a piece of your goodwill."

A: "Now wait a minute. We're not about to sell our goodwill. We want to keep on operating just like we always have."

B: "Relax! You're not really going to have to sell us any goodwill or anything else. All we want you to do is sign a piece of paper that says we've bought your goodwill, but we promise to structure the deal so that nothing really happens. It just could be, though, a useful thing because maybe nobody will look behind the barebones recital about goodwill and all that."

A: "But what about our marks? We wouldn't want any of our customers to think there was any connection between your mark and ours, and I'm sure you don't either."

B: "We've thought of that too. But don't worry. No one will ever think there's any connection at all. You see, our marks look entirely different. Now we would want you to agree never to use a mark that resembles ours. No window or door front displays either; that would look too much like the way we do business. And by all means, do not use your mark the way we are going to use ours."

A: "Why not?"

B: "Very simple. We are doing everything possible to keep your mark separate from ours, so no one will think there's a connection."

A: "But if you keep them that separate, aren't you defeating your purpose? Don't you want to pretend you're buying some of our goodwill?"

B: "Of course, you are quite right. But look at it this way. You won't really sell your goodwill, so the only thing we can do is pretend to buy it and then leave you alone just as you were before. All we are really doing is buying your priority."

A: "Couldn't this get out of hand, everybody starting to buy everybody else's priorities?"

B: "Why, what's wrong with that? Maybe we'll be able to get them listed for trading on the commodities exchanges."

Petitioner BTNB respectfully prays that this Court will grant this Petition for Certiorari to the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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